Firms' Characteristics and Financial Reporting Quality of Listed Service Firms in Nigeria

ETUKENYIN, Sophia Gregory
Department of Accounting, Faculty of Management Sciences
Akwa Ibom State University, Obio Akpa Campus.
etukenyinsophia@gmail.com

AKPAN, Dorathy Christopher
Department of Accounting, Faculty of Management Sciences
Akwa Ibom State University, Obio Akpa Campus.
dorathyakpan@aksu.edu.ng

UMOREN, Adebimpe
Department of Accounting, Faculty of Management Sciences
Akwa Ibom State University, Obio Akpa Campus
adebimpeumoren@uniuyo.edu.ng
*Corresponding author Tel.: +2349033629021
e-mail: etukenyinsophia@gmail.com
DOI: 10.56201/jafm.vol.11.no2.2025.pg145.159

Abstract
Poor financial reporting quality has been the root cause of corporate scandals involving earnings management, improper disclosure and other manipulations of financial reports in many sectors of the Nigerian industry. This study examined the effect of firms' characteristics on financial reporting quality of listed service firms in Nigeria from 2014 to 2023. The research design adopted in this study was ex post facto, secondary data were used and the population of study was 23 listed service firms in Nigeria and the sample size of 19 were purposively selected. The data were analysed using pool ordinary least square regression analysis and the statistical package employed was STATA version 14.2. The findings of the study revealed that capital structure (coef. = -0.012[0.023]) has a significant negative effect on financial reporting quality of listed service firms in Nigeria, which means that increased in the percentage of debt financing significantly reduce financial reporting quality due to earnings management to avoid violation of debt covenant, and ownership structure (coeff. = -0.006[0.887]), has no significant effect on financial reporting quality of listed service firms in Nigeria which implies that a decrease or increase in managerial ownership does not have any significant effect on financial reporting quality of listed service firms in Nigeria. Based on this, it was therefore recommended among others that management of listed service firms should ensure effective corporate governance mechanisms, such as independent board oversight and robust internal controls, in order to maintain reporting integrity.

Keywords: *Capital structure; ownership structure; financial reporting; firms' characteristics.*

1 Introduction

In recent years, there has been increasing attention on the financial reporting quality of firms all over the world. Understanding how various firm attributes influence financial reporting quality is crucial for investors, regulators, and other stakeholders to make informed decisions and assess the reliability of financial information disclosed by these firms. Listed service firms in Nigeria operate in a dynamic and competitive environment, facing unique challenges and opportunities that can impact their financial reporting practices. Factors such as capital structure, ownership structure, asset tangibility, corporate governance practices, auditor quality, regulatory compliance, and industry-specific characteristics may all play a role in determining the quality of financial reporting by these firms.

Financial reporting quality entails the faithful representation and relevance of the information conveyed by the financial reporting process (Masud, 2022). The quality of financial reports has received massive attention due to various scandals arising from earnings management and misrepresentation of financial report in recent years. Large companies such as Enron and Cadbury, had collapsed and investors misled as a result of poor information quality occasioned by earnings management. Financial reporting quality has always been of interest among regulatory bodies, shareholders, researchers and the accounting profession itself. This is because financial reporting has been a principal means of communicating financial information to outside users and the financial report itself is used in assessing the firm's economic performance and condition in the quest to monitor management's actions and assists in making economic decisions (Johnson et al., 2022). Firms' characteristics are the attributes that define a firm's structure and are unique to the firm itself. Examining the relationship between firm attributes and financial reporting quality can provide valuable insights into the factors that drive financial transparency, accuracy, and reliability in the service sector in Nigeria. By identifying the key determinants of financial reporting quality, policymakers, investors, and regulators can develop targeted interventions to improve disclosure practices, strengthen corporate governance frameworks, and enhance overall financial market integrity (Ciocan et al 2021). Such attributes as capital structure, ownership structure and asset tangibility could possibly influence the quality of financial reporting of firms.

When the capital structure of a company has more debt than the equity capital the management may tend to choose accounting policies that increase the income so that they abide by the debt covenants imposed by banks and bondholders and this affect the faithful representations (Bintara, 2022). Fagbemi et al. (2022) describes managerial shareholding as the insider holdings by the board of directors and the management team. According to Ibrahim et al. (2023), agency theory clearly stipulates that ownership structure is an important mechanism for good governance that could foster a greater alignment of the interests of managers with those of shareholders. Managerial ownership in a company can lead to various kinds of actions in financial reporting in the company. A firm's characteristics can significantly impact its financial reporting quality. Factors such as ownership structure, financing options, audit quality all play crucial roles. A company with transparent accounting practices and strong governance structures is more likely to produce accurate and reliable financial reports, enhancing its reporting quality (Cohen & Karatzimas, 2017). Conversely, firms with poor governance, aggressive accounting tactics, or weak internal controls may exhibit lower financial reporting quality, leading to concerns about the accuracy and reliability of their reported financial information. When managers own shares, their interests are aligned with those of shareholders, promoting more transparent and accurate financial reporting. Therefore this study was carried out to ascertain the effect of firm characteristics on financial reporting quality of listed service firms in Nigeria. The following objectives guided the achievement of this aim;

1. Evaluate the effect of capital structure on financial reporting quality of listed service firms in Nigeria.
2. Examine the effect of ownership structure on financial reporting quality of listed service firms in Nigeria.

2 Literature Review

A firm's characteristics can significantly impact its financial reporting quality. Factors such as ownership structure, financing options, audit quality all play crucial roles. A company with transparent accounting practices and strong governance structures is more likely to produce accurate and reliable financial reports, enhancing its reporting quality (Cohen & Karatzimas, 2017). Conversely, firms with poor governance, aggressive accounting tactics, or weak internal controls may exhibit lower financial reporting quality, leading to concerns about the accuracy and reliability of their reported financial information. When managers own shares, their interests are aligned with those of shareholders, promoting more transparent and accurate financial reporting (Chau & Gray 2023). Here are the relationships between the variables of the study.

2.1 Capital Structure and Financial Reporting Quality

Capital structure can affect financial reporting quality through the level of debt and equity a company holds. Higher levels of debt may lead to greater pressure to meet debt covenants, which can incentivize management to engage in earnings management or aggressive accounting practices to present more favourable financial statements (Aurelia et al., 2020). On the other hand, companies with lower debt levels might face less pressure, leading to more transparent and higher-quality reporting. When a firm for instance is highly levered the managers tend to choose accounting policies that increase the income so that they abide by the debt covenants imposed by banks and bondholders and this affect the faithful representations Also, Sweeney (2023) observed that firms near default employed income-increasing accounting changes in order to delay their technical default. Mohrman (2016) supports this view by arguing that firms with higher leverage are expected to adopt accounting procedures that increase current income. According to Samuel et al. (2024) companies with higher leverage are often under close scrutiny by creditors and lenders, who require accurate and transparent financial reporting to assess the company's ability to meet its debt obligations. This increased external monitoring can discourage earnings manipulation and improve reporting quality.

2.2 Ownership Structure and Financial Reporting Quality

Ownership structure can influence the quality of financial reporting depending on the concentration and type of ownership. However, if owners have significant control, there could be agency problems, leading to manipulations for personal benefits. Dispersed ownership can sometimes result in less effective oversight, potentially reducing reporting quality. According to

Dewata, et al. (2023), when ownership is concentrated in the hands of large shareholders, such as institutional investors or family owners, they have a greater incentive and capacity to monitor management closely. This enhanced oversight reduces the likelihood of financial misreporting, as large shareholders can exert influence over management to ensure accurate and transparent reporting. Institutional investors, such as pension funds, mutual funds, or hedge funds, often have significant expertise in financial analysis and governance (Mahboud, 2023). Their involvement in a firm can lead to improved financial reporting quality as they push for greater transparency and compliance with accounting standards, ensuring management does not engage in earnings manipulation or misreporting. Managerial share ownership can create an incentive to manage earnings to increase share value, potentially leading to aggressive accounting practices and lower financial reporting quality.

2.3 Theoretical framework

This study is based on several theory which provided a more robust understanding of the impacts of firm characteristics and financial reporting quality. These theories included agency theory, positive accounting theory and institutional theory. However, the anchor theory for this study was agency theory. According to Amat and Gowthorpe (2023), within the framework of the agency theory, it is both logical and inescapable that management behaviour will be self-serving, and because of this, the agency theory can, therefore, provide a solid framework for the understanding of earnings management and managers behaviour (opportunistic theory). On the other hand, Schipper, (2019) sees the informational perspective as a key element underpinning the study of the financial reporting quality. According to him, a conflict is created by the information asymmetry that exists in complex corporate structures between a privileged management and a more remote body of stakeholders. This is the anchor theory for this research and is relevant because it focuses on the relationships between principals (shareholders) and agents (managers) and how conflicts of interest between these parties can affect decision-making and outcomes (financial reporting quality).

2.4 Empirical Review

Several works have been carried out and reported on the effect of firms' characteristics on financial reporting quality, and have provided an expansive body of knowledge on the subject matter.

Samuel et al. (2024) examined the effect of firm characteristics on financial reporting quality in Nigeria. The study adopted the ex post facto research design, and used all quoted non-financial firms on the floor of the Nigerian Exchange Group (NGX) as population of the study. 154 quoted firms on the NGX as at 31st December, 2022 were used, of which 46 were classified as financial quoted firms while the non-financial was 108. The Taro Yamani formula for determining sample size was used, and the results from the panel regression estimated revealed mix findings for the firm characteristic variables in relation to the financial reporting quality. The result showed that profitability have no significant relationship with financial reporting quality, leverage was found to have a positive relationship with financial reporting quality. The study recommended that emphasis should not be on structuring the financial report to show profit at all cost but rather management should prepare the financial statement to show the true state of affairs of the firm at any point in time. Also, Le et al. (2024) examined the relationship between financial reporting quality (FRQ) and investment efficiency (IE) in Vietnamese manufacturing firms and analyses the moderating role of various firm characteristics, including debt maturity (Stdebt), financial strength (Z), firm size and tax upon such relationship. The study used a sample of manufacturing firms listed on the Vietnamese stock market from 2008 to 2021 to test and analyse overinvestment and underinvestment situations. Results indicate a positive relationship between FRQ and IE among manufacturing firms in Vietnam, and such a relationship is moderated by firm characteristics, including Stdebt, Z, firm size and tax. Moreover, debt maturity, TobinQ, audit and tax positively affect IE, whereas financial strength and firm size tend to affect IE negatively. Similarly, when firms are underinvested, TobinQ and leverage positively affect IE, whereas financial strength has a negative relationship with IE. Furthermore, the studying findings demonstrate that firm characteristics moderate the relationship between FRQ and IE. The results enhance the understanding of firm performance for CEOs and managers and provide short- and long-term internal strategies for sustainable development and goal achievement. Additionally, these findings assist investors in analyzing and making informed investment decisions, helping firms minimize risks and enhance their competitiveness. Given the limited empirical research regarding the relationship between FRQ and IE in an emerging market, this study contributes to the existing literature by adding original value to this area. Furthermore, the findings confirm the agency and asymmetry information theories' view.

Furthermore, Aurelia et al. (2024) investigated determinants of financial reporting quality (FRQ) local government in Sumatera Islands, Indonesia. The FRQ local government was proxied by audit opinion from the Indonesian Supreme Audit Board (ISAB) for each local government sample. The tested independent variables are capital expenditure, characteristics of local governments (size, financial independency, and local government status), and mayor's characteristics (experience and age). Data were obtained from the summary of semester audit results of ISAB, official website of the ministry of finance and the local governments in Sumatera Island. Total samples are 143 local governments and the period of study is 5 years (2016 – 2020, or 715 observations). Using the multinomial logistic regression, this study found that a lower ratio of capital expenditure, smaller local governments, local government in city areas, and local governments led by older and experienced mayor are associated with higher financial reporting quality. This study also uncovered that mayor education level and mayor graduated from the Institute of Public Administration (or IPDN) have positive influence of financial reporting quality of the local governments.

A major gap identified in the empirical review is that most of the related studies focused on other sectors of the economy such as ICT sector, consumer goods companies, iindustrial goods sector. This study attempts to fill this gap by focusing on service firms. Another remarkable gap was that most of the studies used other measures of financial reporting quality such as earnings persistence and accruals; earnings smoothness; asymmetric timeliness and timely loss recognition; and target beating. This study uses the IASB qualitative characteristic and a disclosure checklist was developed based on these qualitative attributes.

3 Materials and Methods

3.1 Research design

Ex-post facto research design was used in this study as it involves analysing existing data without any manipulation or intervention by the researcher. This design was appropriate for the study as it utilizes secondary data sourced from the annual reports of the selected service firms in Nigeria.

3.2 Population of the study

The population of this study consisted of all service firms listed on the floor of Nigerian Exchange Group. According to the Nigerian Exchange Group factbook, the total number of service firms listed on the Nigerian Exchange Group between 2014 to 2023 was 23 companies.

3. 3 Sampling and sampling technique

The sample size of this study was purposively selected based on two criteria. First the company must be listed and remain listed from 2014 to 2023 and the company must have up to date accessible financial statements within this period. Based on the above criteria only nineteen companies were selected and these constituted the sample size of the study.

3.4 Sources of data

Secondary data source was employed to generate the data for analysis. This is because secondary data tend to be more reliable and verifiable (Creswell, 2014). The data for the listed service firms were sourced from Nigerian Exchange Group Fact Books and related companies audited annual financial statements. The data for the dependent variable, financial reporting quality was measured using IASB conceptual framework qualitative characteristics' model. A disclosure checklist devised according to this model contained five sections with information relating to the qualitative characteristics of financial reports as given by the IFRS conceptual framework (2018). Each major component of qualitative characteristic model was given a weight of 1-5 and the weighted average scores for each component was obtained as was done by Adedapo and Olawale (2019) and Ciocan et al., (2021). The IASB checklist and its operationalization of each qualitative characteristics is given in appendix C.

$$ISAB\ Score\ Index = \frac{Aggregate\ Scores}{ACtual\ Score}$$

3.5 Methods of Data Analysis

To examine the cause-effect relationship existing between firm characteristics and financial reporting quality as well as to test the formulated hypotheses, the study relied on ordinary least square (OLS) regression analysis, and employed the STATA version 14.2 software.

4 Results and Discussions

This study explored the effect of firm characteristics on financial reporting quality of listed service firms in Nigeria between 2014 and 2023, with financial reporting quality being the dependent variable was measured using IASB qualitative characteristics score index while the independent variable firm characteristics, was proxied by capital structure (CAPS) and ownership structure (OWNS).

4.1 Descriptive analyses

The descriptive statistics for both the explanatory and dependent variables of interest was carried out. Each variable was examined based on the mean, standard deviation, maximum and minimum. Table 4.1 below displays the descriptive statistics for the study.

Table 4. 1: Descriptive statistics of firm characteristics and financial reporting quality of service firms listed in Nigeria

Variable	Obs	Mean	Std. Dev.	Min	Max
FIRQ	189	.468	.156	.21	.77
CAPS	188	.574	1.219	-12.226	2.317
OWNS	189	.146	.14	0	.476

Source: Stata output (2024)

Table 4.1 above shows the descriptive statistics for the variables of firm characteristics and financial reporting quality as operationalized in this study. From the top, there are descriptive of the dependent proxy; IASB checklist scores which was the measure for financial reporting quality (FIRQ). From table 4.1, average score in the entire sector was 0.468 (that is 47% of the expected score; 1), with a standard deviation of 0.156. The standard deviation is a small one, indicating that firms in the sector had almost similar index scores or homogenous scores. It also indicates to an extent, same quality of financial reporting across the sampled firms. Looking at it still, the lowest score was 0.21 (21% of the expected score; 1) while the highest was 0.77 (77% of the expected score; 1). The index score had a low average which was evidently below 50%. Possible reason for this could be the fact that most firms in the sector employed the services of non-big 4 audit firms across many years.

For capital structure (CAPS), we had a sector average of 0.574 (about 57% of total long-term funds being made of equity) with a standard deviation of 1.219. This is a standard deviation far from the mean and a high one at that. It entails high degree of variability in the capital structure of the various firms in the service sector. This implies that capital structure combination was different or non-similar from firm to firm. However, we had -12.226 (about -1200%) to be the lowest percentage of equity present in total long-term funds and 2.317 (about 230%) to be the highest content of equity in the total long-term funds. This is abnormal and might not be clear but it’s possible if there exists a large negative balance of equity and a positive one for long-term liabilities. Adding them together and finding this ratio is what could lead to this outstanding case and this was the exact scenario witnessed here for Juli Plc in particular.

For our second independent variable; ownership structure (OWNS). It was observed that lowest percentage of shares owned by managerial staff was 0% (meaning no shares at all). It is important to note that this figure might be due to lack of disclosure in the annual report or an actual 0%.

0.476 (about 48%) was seen or observed to be the highest percentage of total outstanding shares owned by all management staff in a firm; all with an average of at least 0.146 (about 15%) of the total shares. Standard deviation came in at 0.14 which was almost at the mean. This indicates an absolute lack of heterogeneity in the managerial ownership data. In other words, percentage of managerial ownership was almost very similar for firms across the service sector.

4.2 Data Analyses

4.2.1 Correlation Analysis

The Spearman's rank correlation coefficient was used to test the correlation between the variables for the study. The result is presented in table 4.2.

Table 4.2 Spearman's rank correlation coefficients

	Variables	(1)	(2)	(3)
1.	FIRQ	1.000		
2.	CAPS	-0.105	1.000	
3.	OWNS	-0.086	-0.133	1.000

Source: Stata output (2024)

Table 4.2 shows coefficients for the spearman correlation. From the output, it was observed that each of the variables had perfect correlation with themselves with 1.000 as correlation coefficient. Diving deeper, capital structure (CAPS) has a weak negative association with financial reporting quality (-0.105). This implies that increase in capital structure comes with decrease in financial reporting quality without capital structure necessarily causing this relationship. There was no sufficient evident as to the correlation between ownership structure (OWNS) and financial reporting quality (FIRQ) (-0.086) as the coefficient was very low.

4.2.2 Regression Analysis

This study used a panel regression to examine the cause-effect relationships between the dependent variable and independent variables as well as to test the formulated hypotheses. Table 4.3.presents output for pooled OLS and random effect GLS model.

Table 4.3 Regression Output

	(1)	(2)
	Pooled OLS FIRQ	**Random Effects Model FIRQ**
CAPS	-0.012**	-0.012**
	(0.023)	(0.022)
OWNS	-0.006	-0.006
	(0.887)	(0.887)
Constant	0.380***	0.380***
	(0.000)	(0.000)
R-squared	0.722	0.722
Observations	189.000	189.000
F/W Stat	119.606	478.420
Prob.	0.000	0.000
Hettest	2.79 (0.095)	
VIF	1.03	
Lagrange		0.000 (1.000)

P-values in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
Source: Stata output (2024)

The pooled OLS regression model presented above shows an F-statistic of 119.606 with p-value of 0.000 indicating that overall, the pooled OLS regression model is fit for statistical inference and also that overall, the relationship between firm characteristics and financial reporting quality is statistically significant. The model gave an R-squared value of 0.722 which means that 72.2% of the changes in financial reporting quality can be explained by the proxies of firm attributes in the model. However, the unexplained part (27.8%) is captured in the error term.

4.2.3 Normality test

The Shapiro Wilk test was used to test for normality, to determine whether the data set is well modelled by a normal distribution or not. Table 4.4 shows the results of the normality test.

Table 4.4 Shapiro-Wilk W test for normal data

Variable	**Obs**	**W**	**V**	**z**	**Prob>z**
FIRQ	189	0.966	4.786	3.592	0.000
CAPS	189	0.313	97.075	10.495	0.000
OWNS	189	0.875	17.753	6.600	0.000

Table 4.4 shows the normality test for each variable in the study. From the result, it was observed that majority of the variables followed a normal distribution and one did not. In detail, it was observed that the dependent variable; financial reporting quality (FIRQ) did not follow a normal curve marked by its Prob>z value of 0.000 which was less than 0.05 level of significance. For the first independent variable; capital structure (CAPS), null hypothesis was rejected (Prob>z value of 0.000). The probability value was less than 0.05 implying that it does not follow a normal curve. Rejection of null hypothesis was also the case for ownership structure (OWNS) with Prob>z value of 0.000<0.05 level of significance. As such, it did not follow a normal curve.

4.3 Test of hypotheses

Hypothesis one

Ho: Capital structure does not have significant effect on financial reporting quality of listed service firms in Nigeria.

H$_1$: Capital structure has significant effect on financial reporting quality of listed service firms in Nigeria.

Results from the pooled OLS showed that capital structure (CAPS) with coefficient and p-value of -0.012 and 0.023 respectively, has a significant negative effect on financial reporting quality of listed service firms in Nigeria. These warranted the rejection of the null hypothesis stated above and the acceptance of the alternate hypothesis. This was because the p-value was significant at the 5% level.

Hypothesis two

Ho: Ownership structure does not have significant effect on financial reporting quality of listed service firms in Nigeria.

H$_1$: Ownership structure has significant effect on financial reporting quality of listed service firms in Nigeria.

Output for the pooled OLS in table 4.5 also presented -0.006 and 0.887 as coefficient and p-value respectively. It is evident that the p-value is statistically insignificant at the 5% level. Therefore, the null hypothesis was accepted and alternate hypothesis was rejected. This indicates that ownership structure (OWNS) has no significant effect on financial reporting quality of the sampled firms.

4.4 Discussion of Findings

4.4.1 Capital Structure and Financial Reporting Quality

The results obtained from the pooled OLS regression model revealed that capital structure (CAPS) has a significant negative effect on the financial reporting quality of listed service firms in Nigeria, as indicated by the coefficient value of -0.012 with a p-value of 0.023. This finding suggests an inverse linear relationship between capital structure and financial reporting quality. In other words, as the capital structure of these firms becomes more leveraged; particularly with a higher proportion of debt in the long-term funding mix; the quality of financial reports tends to decline. This negative relationship indicates that increasing the debt component within the long-term funding structure causes reduced transparency, reliability, or quality in financial disclosures of service firms in Nigeria. One possible explanation for this could be that higher leverage often increases the pressure on manager to meet debt covenant or avoid default. This pressure may lead to earnings manipulation or other accounting practices that compromise financial reporting quality. The observed negative effect aligns well with the apriori expectation of this study, which hypothesized a potential adverse impact of increased debt financing on the quality of financial statements. This expectation was grounded in the idea that firms relying more heavily on debt might prioritize flexibility over strict financial discipline, leading to less conservative reporting practices. Looking at past studies, the findings from this analysis are consistent with several prior works that have suggested a negative relationship between high debt financing and financial reporting quality. For instance, Mohrman (2016) argued that firms with less reliance on debt may not be as motivated to uphold stringent accounting standards because they are not under the same pressure from creditors who require reliable and transparent financial reports to assess the company's ability to meet its obligations. This aligns with the notion that companies with higher leverage often face increased scrutiny from lenders and external monitors, leading to more conservative and higher-quality financial reporting (Samuel et al., 2024).

Similarly, Le et al. (2024) emphasized that firms with substantial debt financing are typically subject to financial covenants, which mandate adherence to specific financial ratios. These covenants act as a form of control mechanism, incentivizing firms to maintain high standards of financial reporting to avoid the risks of covenant violations and subsequent penalties. The absence of such constraints in equity-financed firms may result in more aggressive accounting choices and less conservative reporting practices, as they do not face the same direct financial repercussions.

On the contrary, Adebayo et al. (2022) found a significant positive relationship between leverage and reporting quality, noting that excessive reliance on debt can sometimes backfire, especially when companies engage in income-increasing accounting manipulations to avoid breaching debt covenants or to mask financial distress. This view suggests that while increased leverage can improve reporting quality due to heightened scrutiny, it can also lead to opportunistic financial behaviour if the debt burden becomes overwhelming. Thus, the relationship between capital structure and financial reporting quality is nuanced and may be influenced by factors such as the firm's overall financial health, the presence of robust corporate governance, and the nature of its capital market interactions.

Further contrary evidence from Diriyai and Korolo (2023) indicated an insignificant negative association between leverage and reporting quality in listed industrial goods companies, implying that in certain contexts, the level of debt might not exert a substantial influence on the quality of financial disclosures. Their findings suggested that other factors, such as industry characteristics, market conditions, or regulatory environments, may play a more decisive role in shaping financial reporting practices.

4.4.2 Ownership Structure and Financial Reporting Quality

The results obtained from the pooled OLS regression model revealed that ownership structure (OWNS) (-0.006[0.887]); has a statistically non-significant effect on the financial reporting quality of listed service companies in Nigeria. This means that there is no sufficient evidence as to the negative relationship between ownership structure and financial reporting quality of the sampled firms. The non-significant effect suggests that variations in ownership structure, specifically, managerial ownership, do not appear to have a discernible effect on how well these companies report their financial information. One possible explanation could be that the ownership characteristics of the sampled firms are not strongly linked to the internal mechanisms of financial reporting oversight. For instance, in firms where ownership is widely dispersed, the influence of individual shareholders on corporate governance practices may be diluted, making it harder for ownership structure to significantly affect financial reporting outcomes.

Additionally, this result may indicate that the governance mechanisms in place within these firms are adequate to mitigate any potential negative effects arising from different ownership structures. Even if a firm has a strong managerial ownership, the presence of robust governance frameworks, such as effective audit committees or stringent regulatory requirements, could ensure consistent reporting standards regardless of ownership composition. Looking at past studies, Klish et al. (2022) opined that managerial ownership does not always have a direct influence on financial reporting quality, especially when robust governance mechanisms are in place. The presence of effective audit committees and compliance with regulatory requirements can ensure high standards of financial reporting, irrespective of ownership structure. This suggests that managerial ownership alone may not be a decisive factor in determining reporting quality, as observed in this study. Similarly, Dewata et al. (2023) highlighted that in firms where ownership is dispersed or concentrated in the hands of institutional investors, the effect of managerial ownership on financial reporting quality might be mitigated by the strong oversight of these investors. Institutional investors typically enforce transparency and adherence to accounting standards, reducing the impact of managerial ownership variations on financial disclosures.

Contrary to the results obtained in this study, Osuji and Okwuagwu (2022) found that ownership structure, particularly managerial share ownership, significantly impacts the financial reporting quality of listed industrial goods firms in Nigeria. They argued that higher managerial ownership can align the interests of managers with shareholders, reducing agency conflicts and leading to improved transparency in financial disclosures.

Additionally, Anto and Yusran (2023) noted that concentrated ownership, including substantial managerial ownership, often results in greater oversight and reduced likelihood of earnings manipulation. Their study highlighted that managers with significant ownership stakes have a vested interest in maintaining investor confidence through high-quality financial reporting, which contrasts with the non-significant relationship found in the current analysis. Also, Samuel et al. (2024) provided evidence that managerial ownership can have a positive impact on financial reporting quality when complemented by effective corporate governance structures. They observed that firms with substantial managerial ownership and strong governance frameworks are less likely to engage in opportunistic behaviour or misreporting, suggesting a positive association between ownership structure and financial reporting outcomes.

5 Conclusion

This study explored the effect of firm characteristics on the financial reporting quality of listed service firms in Nigeria, focusing on attributes such as capital structure and ownership structure. The research findings emphasize the critical role these characteristics play in shaping the transparency, accuracy, and reliability of financial disclosures, which are vital for bolstering investor confidence, enhancing decision-making, and ensuring compliance with regulatory standards. The results of the analysis indicate that capital structure has a significant negative effect on financial reporting quality. This suggests that firms with higher levels of debt are more likely to experience pressure to meet debt covenants, which can incentivize earnings management practices, thereby reducing the quality of financial reports. The increased financial leverage may compel managers to adopt aggressive accounting tactics to present a more favourable financial position, ultimately compromising the integrity of financial disclosures. Conversely, the findings show that ownership structure do not have a statistically significant effect on financial reporting quality. This implies that variations in ownership concentration do not inherently influence the transparency or reliability of financial statements in the service sector. The findings of the study are summarised below;

1. Capital structure (coef. = -0.012[0.023]) has a significant negative effect on financial reporting quality of listed service firms in Nigeria. This means that increased in the percentage of debt financing significantly reduce financial reporting quality due to earnings management to avoid violation of debt covenant.
2. Ownership structure (coeff. = -0.006[0.887]) has no significant effect on financial reporting quality of listed service firms in Nigeria. This means that decrease or increase in managerial ownership does not have any significant effect on financial reporting quality of listed service firms in Nigeria.

Based on the findings of this study, the following recommendations are made;

1. The management of listed service firms should maintain an optimal debt-to-equity ratio to avoid excessive leverage, which could pressure management into earnings manipulation or aggressive reporting practices. Additionally, regular monitoring of financial policies can mitigate risks associated with high leverage.

2. Given that managerial ownership has no significant effect on financial reporting quality, management of listed service firms should ensure effective corporate governance mechanisms, such as independent board oversight and robust internal controls, in order to maintain reporting integrity.

References

Creswell, J. W. (2014). *Research design : qualitative, quantitative, and mixed methods approaches.* SAGE Publications, Inc. https://doi.org/10.4324/9780203803448-9

Adebayo, L. Q. (2022). Determinants of financial reporting quality among the selected listed Non-financial firms in Nigeria. *World Journal of Research and Review, 14(6), 14-27*

Adedapo, S. K., & Olawale, L. S. (2019). Firm characteristics and financial reporting Quality: Evidence from non-financial firms in Nigeria. *International Journal of Economics, Management and Accounting*, *27*(2), 23-45

Amat, O. & Gowthorpe, C. (2023). Creative accounting: Nature, incidence and ethical issues. *UPF Working Paper 7, 49-78*

Anto, L. O., & Yusran, I. N. (2023). Determinants of the quality of financial reports *.International of Professional Business Review, 3(1), 23-44*

Aurelia, C., Nurmayanti, P., Afifah, U, & Setiawan, D. (2020). Determinants of financial Reporting quality: Evidence from Local Governments in Sumatera Island. *Jurnal Dinamika Akuntansi dan Bisnis, 11*(1), 175–190

Bintara, R. (2022). Determinant model of profitability and real earnings management in the corporate governance perception index (cgpi) winning companies. *International Journal of Management Studies and Social Science Research*, *4*(1), 295-310.

Chau, H., & Gray, D. (2023). Reversal of fortune dividend signaling and the disappearance of sustained earnings growth. *Journal of Financial Economics*, *40*(3), 341-371.

Ciocan, P., Carp, R.,& Georgescu, D. (2021). Financial reporting quality: the IASB approach. *International Journal of Business and Management, 6*(4), 158-165.

Cohen, S., & Karatzimas, S. (2017). Accounting information quality and decision-usefulness of governmental financial reporting: Moving from cash to modified cash. *Meditari Accountancy Research*, 25(1), 95-113. https://doi.org/10.1108/MEDAR-10-2015-0070

Demirgüc-Kunt, A. & Maksimovic, V. (2018). Law, finance, and firm growth. *The Journal of Finance, 53*, 2107-2137.

Dewata, E., Hadi, H.,Hadi Jauhari, H. (2023). Determinants of financial reporting Quality and its implications on the Financial performance of state-owned enterprises. *Risk governance & control: financial markets & institutions, 6(4) 521-532 .*

Diriyai, A. S., & Korolo, E. K. (2023). Firm characteristics structure and financial reporting quality of quoted industrial goods Companies in Nigeria. *Fuoye Journal of Management, Innovation and Entrepreneurship. 2(1), 1-11*

Fagbemi, T. O., Kolawole, M. A., Adigbole, E. A., & Abogun, S. (2022). C-Suite bias, firm characteristics, and capital structure decisions of quoted industrial firms in Nigeria. *International Journal of Theory & Practice, 13*(02), 77-92

Ibrahim, J., Adebayo, Olowookere, K., & Oladejo, T. (2023). Firm structural attributes and capital structure adjustments among listed manufacturing firms in Nigeria using static and dynamic approaches. *FUDMA Journal of Accounting and Finance Research. 1(*3) 52-63

Johnson, V. E., Khurana, I. K., & Reynolds, J. K. (2022). Audit-firm tenure and the quality of financial reports. *Contemporary Accounting Research, 19*, 637-660.

Klish, A.A., Shubita, M.F.S., & Wu, J. (2022). IFRS adoption and financial reporting quality in the MENA region. *Journal of Applied Accounting Research*, 23(3), 570-603.

Le, H., Lai, C., Phan, V., & Pham, V. (2024). Financial reporting quality and investment efficiency in manufacturing firms: The role of firm characteristics in an emerging market. Journal of competitiveness, 1(4),54-79.

Mahboud, R. (2023). Main Determinants of financial reporting quality in the Lebanese banking sector E*uropean Research Studies Journal, 4B, 706-726*

Masud, A. l. (2022). Factors determining financial reporting quality: An empirical study on the publicly listed food and allied companies of Bangladesh. *International Journal of Management, Accounting and Economics, 2(2), 45-59.*

Mohrman, M.B., (2016). The use of fixed GAAP provisions in debt contracts. *Accounting Horizons*, 10(3), 78- 91.

Samuel, E.T.,Festus E. U., Okwoma A.A., Erume F.O. (2024). Firm characteristics and financial reporting quality in Nigeria. Nigerian Journal of Management Sciences, 25 (1) ,551-567

Schipper, K. (2019). Discussion of voluntary corporate disclosure: The case of interim reporting, *Journal of Accounting Research, Supplement, 19*, 85-88.

Shehu, S. H. & Bello, A. (2020). Firm characteristics and financial reporting quality of listed manufacturing firms in Nigeria. *International Journal of Accounting, Banking and Management, 1*(6), 47-63.

Sweeney, J. B. (2023). Firm characteristics and financial reporting quality: Evidence from non-financial firms in Nigeria. *International Journal of Economics, Management and Accounting, 27*(2), 445-472.

Osuji, C.C., & Okwuagwu, P. N. (2022). Firms' characteristics and quality of financial reports of firms in Nigeria industrial goods sector. *International Journal of Management and Commerce Innovations,* 10(1), (283-292)